BUSINESSEUROPE

SPEECH

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12 November 2007

SEVENTEENTH MEETING OF THE MACRO-ECONOMIC DIALOGUE AT POLITICAL LEVEL
INTERVENTION BY ERNEST-ANTOINE SEILLIÈRE, BUSINESSEUROPE PRESIDENT

Time slot: 5 minutes

Time:	15.00 - 17.00 hours
Chair:	**Fernando Teixeira dos Santos**, Portuguese Minister of Finance and Public Administration
Report on technical meeting:	**Jukka Pekkarinen**, Moderator of the Macroeconomic Dialogue at Technical level.
Introductory statements:	**Joaquín Almunia**, Commissioner for Economic and Monetary Affairs **Jean-Claude Trichet**, President of ECB **Jean-Claude Juncker**, President of Eurogroup **John Monks**, General Secretary of ETUC **Ernest-Antoine Seillière**, President of BUSINESSEUROPE

- Europe's economic fundamentals remain supportive for the time being. With more than 3.5 million new jobs created in 2007, sound corporate profitability and a revived German economy, the business community remains cautiously optimistic about the outlook, projecting EU growth to reach 2.9% this year and 2.4% in 2008. By investing and hiring at a sustained pace, European companies are making an important contribution to the resilience of the EU economy.

- But brutal exchange-rate movements - in the words of President Trichet at his press conference last week - the risks of a more severe US downturn and possible spill-overs of the credit market turmoil in Europe create an environment that is unusually uncertain for European companies.

- There are two types of useful policy response in present circumstances: those that reduce short-term uncertainties and those that strengthen the resilience of growth in the more medium term.

- The ECB has already contributed a fair share to supporting confidence, and we approve of its handling of the financial market turmoil since the summer. Its interventions to restore an orderly functioning of money markets were swift and decisive, and its wait-and-see attitude as regards its interest-rate policy shows pragmatism in the face of rising uncertainties. In view of the current exchange-rate

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situation and important downside risks to growth, I expect this pragmatism to continue in coming months.

- The overly rapid appreciation of European currencies vis-à-vis the dollar and other major global currencies is obviously a major source of concern. We announced a pain threshold for European companies with a euro trading at 1.40 to the US dollar, and we are today around 1.47.

- We have raised the issue twice since early October by addressing a letter to Eurogroup president Juncker and a joint letter to the euro-area G7 finance ministers. In this respect I am satisfied that European policy-makers are responding to our concerns with the ECB recognising the severity of the foreign exchange market situation and Europe's exchange rate diplomacy making a step forward with the planned visit of Commissioner Almunia, President Juncker and President Trichet to Beijing at the end of the month.

- China must come to grips with the idea that an undervalued currency is not only damaging for the global economy, and in particular for Europe, but also that it does not serve China's domestic interest, with inflation and excessive liquidities becoming a important problem for them. It is also increasingly urgent that the US bolsters its rhetorical position on the need for a strong currency with action, and avoids a further collapse of the US dollar.

- The present situation also sends a clear call to speed up reforms in Europe. The resilience of EU growth will only be guaranteed by a continuous process of adaptation and by boosting productivity and fostering sustainable public finances.

- I take the opportunity of the presence of all European social partners to insist again on the importance of our milestone agreement on flexicurity reached in October and presented at the last Tripartite Social Summit. By taking up the recommendations of social partners, the Commission and the Council have a unique opportunity to restore ownership of a EU-wide agenda for labour-market reforms to European capitals. These recommendations will need to be reflected in the Council's conclusions on flexicurity in December and in the Lisbon strategy review to be decided at the Spring Council.

- I would like to add a final point at this stage on wage moderation. I referred earlier to the strong pace of job creation as an important factor supporting confidence and domestic demand prospects. The present strength of the labour market has much to do with past wage moderation and the responsible behaviour of social partners. At a time of rising uncertainties in other parts of the economy, reversing this trend would be fatal. Companies are already feeling the pressure from exchange rates, record oil prices and rising financing costs. I cannot emphasise strongly enough that the fairest way to share the fruits of the recovery is through sustainable job creation.

- Trade unions should also acknowledge that it is through competitive and flexible markets that the benefits of strong growth are better redistributed. It is in this context that profit margins of companies boost productivity and employment.

- This said, we support the idea that employees should be more directly involved in the success of their companies. Share ownership and profit-sharing schemes are becoming an important part of remuneration policies, and these instruments can help reconcile the interest of employees with those of shareholders.

- Finally, and most importantly, the diversity of country situations needs to be emphasised. In Germany, successful wage moderation has given way to demands for higher wages in the upturn, but everyone must continue to feel responsible for the preservation of a strong competitiveness position.

- At the other end of the spectrum, Spain, Italy, Portugal, Greece or France have lost between 15% and 25% of price competitiveness against Germany since the start of the monetary union, and have in this context seen their external accounts deteriorate continuously. It is now a priority for them to reverse this trend, and wage moderation will need to play a part.

- Let me conclude: in the current situation, all policy stakeholders have to contribute to the resilience of the European economy. The current economic upswing must not be left unexploited and the necessary homework needs to be done. Thank you very much.

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